

BRANCH INTERMEDIATE SCHOOL DISTRICT
FINANCIAL STATEMENTS
JUNE 30, 2006

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INDEPENDENT AUDITOR'S REPORT

**Board of Education
Branch Intermediate School District
Branch County, Michigan**

August 11, 2006

We have audited the accompanying financial statements of the governmental activities, and each major fund, and the aggregate remaining fund information of the Branch Intermediate School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Branch Intermediate School District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund and the aggregate remaining fund information of the Branch Intermediate School District as of June 30, 2006 and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Board of Education
Branch Intermediate School District
Branch County, Michigan**

August 11, 2006

In accordance with Governmental Auditing Standards, we have also issued our report dated August 11, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The management's discussion and analysis and budgetary comparison information on pages 3 through 15 and 38 through 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Combining Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Branch Intermediate School Districts' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Rumsey & Watkins PC".

RUMSEY & WATKINS, P.C.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Branch Intermediate School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2006.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. Information comparing the recently completed fiscal year with the previous fiscal year, is included in accordance with the requirements of GASB Statement No. 34.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand District financially as a whole. The Governmental Activities Financial Statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The Governmental Funds financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the Governmental Activities Financial Statements by providing information about the District's most significant (major) funds – the General Fund, Vocational Education Fund, and Special Education Fund. The remaining statement, the Statement of Fiduciary Net Assets presents financial information about activities for which the District acts solely as an agent for the benefit of students.

Organization of the Report

Management's Discussion & Analysis (MD&A) – Required Supplemental Information

Basic Financial Statements

 District-Wide Financial Statements

 Statement of Net Assets

 Statement of Activities

 Governmental Fund Financial Statements

Notes to the Financial Statements

Required Supplemental Information – Budgetary Information for Major Funds

Other Supplemental Information – Combining Statements of Nonmajor Funds

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Reporting the District as a Whole - Government-Wide Financial Statements

One of the most important questions asked about the District is, "Is the District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the District's financial statements, report information on the District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets, the difference between assets and liabilities, as reported in the Statement of Net Assets, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets, as reported in the Statement of Activities, are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, the District's goal is to provide services to our students and constituent local school districts, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided to students and services provided to our constituent local school districts to assess the overall health of the District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the District, which encompass all of the District's services, including instruction, support services, operations and maintenance, transportation, and community services. Property taxes, state school aid, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds – Fund Financial Statements

The District's fund financial statements provide detailed information about the most significant (major) funds, not the District as a whole. Some funds are required to be established by State law. However, the District may establish other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the District use the following accounting approach:

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Governmental funds - All of the District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation, included in this annual report.

The District as Trustee - Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. The following provides a summary of the District's net assets as of June 30, 2006 and 2005:

	Net Assets	
	Governmental Activities	
	June 30,	
	2006	2005
Current and other assets	\$9,186,560	\$8,459,868
Capital assets	5,040,317	5,036,596
Total assets	14,226,877	13,496,464
Current and other liabilities	1,747,532	1,955,189
Long-term liabilities	575,986	565,532
Total liabilities	2,323,518	2,520,721
Net assets		
Invested in capital assets, net of related debt	4,714,224	4,528,299
Designated	314,291	158,585
Unrestricted	6,874,844	6,288,859
Total net assets	\$ 11,903,359	\$ 10,975,743

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The District's net assets at June 30, 2006 and 2005 amounted to \$11,903,359 and \$10,975,743, respectively. Of this amount, \$6,874,844 and \$6,288,859 was unrestricted for 2006 and 2005, respectively. Restricted and designated net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. At June 30, 2006 and 2005 the District had designated net assets in the amount of \$314,291 and \$158,585, respectively. Our analysis above focuses on the net assets and change in net assets of the District's governmental activities.

The unrestricted net assets of governmental activities for 2006 and 2005 represent the accumulated results of all past years' operations, which means that if the District had to pay off all of the bills at June 30, 2006 including all of our non-capital liabilities (compensated absences for example), the District would have \$6,874,844 left. The increase in unrestricted net assets of \$585,985 from 2005 to 2006 shows an improvement in the financial condition of the District. Management's efforts to closely monitor expenditures and adhere strictly to the budget resulted in this increase in unrestricted net assets. Diligence to these tasks needs to continue in order to maintain unrestricted net assets that are adequate to meet the operational requirements of the district.

The results of operations for the District as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal years 2004-05 and 2005-06.

	June 30,	
Revenues	2006	2005
Program revenues		
Charges for services	\$ 1,055,669	\$ 1,067,662
Operating grants and contributions	4,532,647	4,566,134
General revenues		
Property taxes	8,485,781	8,095,389
State aid not restricted for general purposes	4,232,353	3,896,953
Interest and investment earnings	220,789	104,391
Other general revenues	4,150	5,893
Total revenues	18,531,389	17,736,422
Functions/Program Expenses		
Instruction	9,214,119	8,740,104
Support services	6,479,365	6,699,054
Community services	1,591,851	1,628,494
Other school districts	68,614	30,304
Interest on Durant bonds	81,452	
Depreciation unallocated	168,372	147,654
Total expenses	17,603,773	17,245,610
Increase (decrease) in net assets	\$ 927,616	\$ 490,812

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

As reported in the Statement of Activities, the cost of all of our governmental activities was \$17,603,773 and \$17,245,610 for 2006 and 2005 respectively. Comparison of the two years shows that the cost of governmental activities was increased by \$358,163. A portion of the costs of governmental activities, \$1,055,669 for 2006 and \$1,067,662 for 2005, was paid by those who benefited from the programs. Other governments and organizations subsidized certain programs with grants and contributions in the amount of \$4,532,647 in 2006 and \$4,566,134 in 2005. For 2006 \$12,015,457 of the cost (\$17,603,773 - \$1,055,669 - \$4,532,647 = \$12,015,457) remained to be financed by general revenues. The cost to be financed by general revenues increased by \$403,643 for 2006 since \$11,611,814 of the cost (\$17,245,610 - \$1,067,662 - \$4,566,134 = \$11,611,814) remained to be financed by general revenues in 2005. The District paid for the remaining "public benefit" portion of our governmental activities in 2006 with \$8,485,781 (\$8,095,389 in 2005) in property taxes, \$4,232,353 (\$3,896,953 in 2005) in state aid that was not restricted, and with our other revenues of \$224,939 (\$110,284 in 2005), including interest on investment earnings.

In the table below, we have presented the cost of each of the District's major functions - instruction, support services, community services, other school districts, interest on Durant bonds, and unallocated depreciation, as well as each program's net cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the district's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

	Governmental Activities June 30, 2006		Governmental Activities June 30, 2005	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 9,214,119	\$ 7,191,267	\$ 8,740,104	\$ 6,761,444
Support services	6,479,365	4,771,793	6,699,054	4,687,058
Community services	1,591,851	(2,385)	1,628,494	(14,646)
Other School districts	68,614	68,614	30,304	30,304
Interest on Durant bonds	81,452	(182,204)	-	-
Depreciation unallocated	168,372	168,372	147,654	147,654
Total	<u>\$ 17,603,773</u>	<u>\$ 12,015,457</u>	<u>\$ 17,245,610</u>	<u>\$ 11,611,814</u>

The District originally projected a minimal change in net assets. Total net assets, however, actually increased by \$927,616. In the Vocational Education Fund, actual revenues were \$157,000 more than anticipated in the original budget, and the expenditures were \$317,437 less than anticipated in the original budget. However, outgoing transfers in the vocational education fund were \$253,211 more than the projection in the original budget. The special education fund also contributed to the increase in net assets because although actual revenues were \$52,915 less than originally projected, the actual expenditures were \$414,000 less than the original budget. In the general fund although actual revenue was \$114,248 less than the amount projected in the original budget, the actual expenditures were \$202,662 less than the original budget. Capital assets, net of debt, actually increased by \$185,925 mainly due to the reduction in debt.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The District's Funds

As we noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds helps you consider whether the District is being accountable for the resources taxpayers and others provide to it but may also give you more insight into the District's overall financial health.

As the District completed this year; our governmental funds reported a combined fund balance of \$7,439,028, which is an increase of \$752,146 from last year. The primary reasons for these increases are:

Our general fund is primarily grant funded. It includes our early education programs like Head Start, Michigan School Readiness, Even Start, and the Family Success Program. Also, cooperative programming run for the benefit of our local constituent school districts is included in the general fund. These programs include: Branch County summer school, cooperative computer technician services, talent development programming, Regional Enrichment Media Center services, and others. The General Fund had an increase in fund balance of \$95,271. This is \$79,595 more than projected in the original budget. The District continues to require early education program expenditures to be completely covered with grant revenue, with very few exceptions. Generally early education programs do not impact the fund equity. Therefore, the non-grant revenue and the services funded outside of grants in the general fund provided the increase in the fund balance.

Our Vocational Education Fund remained stable from the prior year showing a net increase of \$218,574. This is an improvement compared to the original budget that projected a decrease in fund balance of \$6,513. A conservative approach to discretionary spending, such as supplies, travel, purchased services, and capital outlay, not only kept expenditures within budgeted amounts, but in some situations left unexpended balances that significantly contributed to the net increase of fund balance. Health insurance costs did not increase as anticipated. These and other factors allowed the board of education to increase the transfers to the Vocational Education Capital Projects Fund and yet at the same time improve the fund balance.

In our Special Education Fund, the largest gain in fund balance, \$282,596 was achieved. This is an improvement compared to the original budget that projected a decrease in fund balance of \$90,086. Actual revenue did not meet the original projection, mainly due to federal funding failing to increase as expected. However, the fact that actual expenditures were \$414,000 less than originally budgeted allowed for an increase in the fund balance. Health insurance costs did not increase as expected. Also, as in the Vocational Education Fund, a conservative approach to discretionary spending, such as supplies, travel, purchased services, and capital outlay, not only kept expenditures within budgeted amounts, but in some situations left unexpended balances that significantly contributed to the net increase of fund balance.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Analysis of Differences between Original and Final Budgeted Amounts and Between Actual and Budgeted Amounts

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 26, 2006. (A schedule showing the District's original and final budget amounts compared with actual amounts is provided in this annual report).

General Fund Budgetary Highlights

With interest rates rising during the fiscal year, all funds experienced higher earnings on investments than projected.

There was reduced participation in the wrap-around child care program offered at the Vista Drive facility for the Head Start program, compared to the prior year. Less revenue was received from both the fees paid by parents and the state support received from the Michigan Department of Human Services.

As for the various grants, there was a small balance of unexpended money remaining at the beginning of the year in state aid for section 32b for the All Students Achieve Program – Parent Involvement in Education program (ASAP-PIE) used to fund the District's family success program. The unexpected \$14,455 was expended for program activities within the first few weeks of the 2005-06 fiscal year. The funds expended for the McKinney-Vento Homeless Assistance Grant were less than expected at the start of the year. The Child Care Food Program also had less revenue, with an equal amount of reduced expenditures, than expected. In the Michigan School Readiness grants and the Great Parents – Great Start grant some of the 2005-06 funding allocation was unspent in 2005-06, so will be carried forward to the 2006-07 year. A new Strong Families Safe Children grant for parent education and a Great Start Collaborative grant through the Early Childhood Investment Corporation were received. Neither had been anticipated at the beginning of the year. A new section of the State School Aid Act, section 99b, provided funds to intermediate school districts to be used for middle school mathematics in constituent schools districts. The Even Start grant, which was not renewed for 2006-07, had about \$6,000 of unexpended funds at year end, which were spent within the first few weeks of the new fiscal year.

The District made slightly more use of the shared computer technician in 2005-06 compared to the prior year, so hence the local district partners used the technician slightly less. This reduced the financial support the local school districts provided to Branch Intermediate School District by a corresponding amount.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Special Education Fund Budgetary Highlights

With interest rates rising during the fiscal year, all funds experienced higher earnings on investments than projected. Over \$37,000 additional was earned on investments than projected at the beginning of the year.

A higher special education pupil count than expected brought in additional membership state aid of nearly \$65,000. However, federal grant allocations did not increase as expected, and the original budget overestimated these revenues by \$106,271 for IDEA flow-through and preschool grants, \$9,926 for state initiated transition services, \$23,805 for early on, \$12,325 for vocational rehabilitation, and \$14,829 for Medicaid administrative outreach.

In 2005-06, the District's second year of partial self-funding of health insurance, actual costs again were less than the 6% increase that was anticipated. While all funds were impacted by this lesser increase in health insurance costs, the Special Education Fund, which has a very high percentage of its expenditures in salaries and fringe benefits, in particular benefited from partial self-funding of health insurance. As in other funds, discretionary areas of spending were less than budgeted due to a District-wide effort to contain costs where possible.

The change to a new software program to allow the district to process its own Medicaid fee for service billings, and to improve efficiency of the processing of required special education documents, did increase the cost of contracted data processing by \$32,657. This was a rare exception since actual expenditures generally, in each category, were significantly less than budgeted. However, there were savings in other areas of the budget due to this change that offset some of the data processing expenditure increase.

Vocational Education Fund Budgetary Highlights

With interest rates rising during the fiscal year, all funds experienced higher earnings on investments than projected. Over \$21,000 additional was earned on investments than projected at the beginning of the year.

Kellogg Community College (KCC) contributed over \$10,000 more than anticipated at the beginning of the year under a new personnel agreement between the District and KCC to fund a shared position for customized training and industrial trades program coordination. Baker College began offering evening college classes at Branch Area Careers Center. The rental fees in excess of \$8,400 for the first year of this new arrangement was not included in the original budget.

There were two grants added during the fiscal year. The Branch County Community Foundation provided \$4,500 for the purchase of tents to be used by the Agri-Environmental Wilderness Expedition (AEWE) program. A state Homeland Security Grant for equipment of \$3,814 was received from the Michigan State Police, Emergency Management Division. Neither grant was included in the original budget.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Vocational Education Fund Budgetary Highlights - Continued

Actual state aid received was higher than budgeted. Section 61.1 for added costs of vocational-technical programs and section 62 for vocational education millage equalization provided \$60,081 and \$7,896 more revenue respectively than projected in the first budget, although the actual section 61a.2 state aid for vocational-technical administration was \$3,045 less.

Although the tuition rate charged for non-resident students attending the Branch Area Careers Center was reduced in 2005-06 compared to the prior year rates, the final tuition revenue was \$26,950 more than the projection in the first budget, mainly due to an unexpected increase in the number of tuition students from Union City High School.

Restructuring of the paraprofessional position responsible for the early entry program, that is designed to allow students in grades nine and ten who are at risk of dropping out of school enroll in vocational education programs, into a new combined coordinator position reduced costs for the early entry program. The restructuring allowed the local districts that participate in the program to reduce their payments to the District for the cost of program operation.

The cost of the district's partially self-funded health insurance plan did not increase by 6% as projected, but instead was relatively flat compared to the prior year.

The board of education approved a \$254,000 increase in the planned transfer from the Vocational Education Fund to the Vocational Education Capital Projects Fund in order to provide additional funding for planned projects, in particular asphalt replacement and heating/ventilating/air conditioning system renovations at the Branch Area Careers Center.

Food Service Fund Budgetary Highlights

Coldwater Community Schools, that on a contract basis provides the lunches served at the Dorothy Legg and Waldron Centers, in 2005-06 chose not to request any food commodities on behalf of District. The budget at the beginning of the year, assumed that food commodities would be requested as they were in the prior fiscal year.

The operational deficit of the food service program was less than anticipated, requiring the transfer from the Special Education Fund to the Food Service Fund to be only \$3,769 which is \$3,207 less than budgeted.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Vocational Education Capital Projects Fund Budgetary Highlights

A mechanical renovation at the Branch Area Careers Center for the summer of 2005, which included replacement of one boiler, installation of an air dryer for the compressed air system, and modifications to a roof-top air handler, extended into the 2005-06 year which was not anticipated in the beginning budget. The replacement of a portion of an asphalt drive on the east side of the Branch Area Careers Center which occurred in the fall of 2005, did come in under the \$35,000 budgeted for the project by a few thousand dollars. Another mechanical projection at the Branch Area Careers Center for the summer of 2006, involving the replacement of piping systems in the low bay portion of the building, was undertaken. This mechanical project was not in the budget adopted at the start of the year. At year end, the project was only partially complete.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the District had over \$11 million invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net increase (including additions, deductions, but before the deduction of accumulated depreciation) of \$208,723, or 1.9 percent, from last year.

Capital Assets at Year-End

	<u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2006</u>
Land and buildings	\$ 7,041,248	\$ 156,497	\$ -	\$ 7,197,745
Furniture and equipment	3,999,627	315,415	263,279	4,051,763
 Total	 <u>\$ 11,040,875</u>	 <u>\$ 471,912</u>	 <u>\$ 263,279</u>	 <u>\$ 11,249,508</u>

This year's additions of \$471,912 included among other items, numerous computers (desktops, laptops, and servers), personal computer training system, mini-van, pickup truck with snow plow, copier, lathe, dust & fume collectors, tig welders, lawn mower, portable room partitions, down draft welding table, dent puller, defibrillator, projector, some replacement exterior doors for the Dorothy Legg and Waldron Centers, replacement asphalt drive east of the Branch Area Careers Center, an air conditioning system for the copier room at the Branch Area Careers Center and more improvements to the heating/cooling system also at the Branch Area Careers Center. No debt was issued for these additions. The retirements of \$263,279 included among other items, two mini-vans, copier, lawnmower, plasma cutter, and numerous computers all of which were out-dated and/or ill-suited to provide safe and appropriate services to the District.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Capital Asset and Debt Administration - Continued

For the second year in a row, a mechanical project at the Branch Area Careers Center was partially completed at year end. This mechanical project is anticipated to be completed in early 2006-07. An even larger mechanical project is planned for the summer of 2007 at the Branch Area Careers Center, which will span both 2006-2007 and 2007-08. During the summer of 2006 a portion of the machinery storage area in the Agriculture Pole Barn was converted to an area suitable for raising sheep through the Natural Resources and Agriculture Technology program at the Branch Area Careers Center. This will allow for the abandonment and eventual demolition of the present sheep barn, which has some structural issues. After replacing an asphalt drive on the east side of the Branch Area Careers Center, directly south of the BACC Annex building during the fall of 2005, a second major asphalt project was accomplished in the summer of 2006 when most of the asphalt parking for BACC owned vehicles on the east side of the building was replaced. Another asphalt replacement project at the Branch Area Careers Center is likely for the summer of 2007. We present more detailed information about our capital assets in the Notes to the Financial Statements.

Debt

At the end of this year, the District had \$326,093 in bonds outstanding, representing a decrease of \$182,204 from the prior year. These bonds, issued as part of the Durant vs. State of Michigan settlement, were refinanced by the State of Michigan during the 2002-03 year resulting in a revised payment schedule that included no principal or interest payments in 2002-03 through 2004-05. The State of Michigan in the State School Aid Act appropriates funds to cover the principal and interest due each year.

Outstanding Debt at Year-End

	June 30, 2006	2005
School Improvement Bonds (Durant)	\$326,093	\$508,297

Other obligations include accrued vacation pay, and also sick, personal and annual leave. We present more detailed information about our long-term liabilities in the Notes to the Financial Statements.

Economic Factors and Next Year's Budgets

The taxable value of the district increased by 4.99% for 2006-07. An additional reduction of total millage of 0.0505 mills is required by the Headlee Amendment to the Michigan Constitution for 2006-07. In all three funds, the millage that the District can levy has been permanently reduced due to compounding millage reductions required in nine of the last ten years. The cumulative impact is that the total millage levied by the district is 1.3439 mills less than was authorized originally by the electorate. The ongoing reduction in millage continues to negatively impact the district's revenues and ability to provide services.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The 2006-07 State Act will provide the District with a 3.1% increase in its section 81 funding for the district operations. The per pupil foundation allowance which the district receives based on the special education full-time equated (FTE) pupil count will increase by a similar percent. Minimal or no change will occur in many of the other sections of state aid that are received by the District. Although the increase in state aid benefits the district, the administration remains concerned that the increasing cost of fringe benefits, particularly the mandated contribution to the retirement system, which is mentioned in more detail later, is consuming much of the increased funding, leaving little available to address other areas of the budget.

The district's application to renew its four year federally-funded Even Start Family Literacy Program was not approved due to reduced federal funds availability. Therefore, the program ceased operation in July 2006. The major remaining cost of the program, which will not be covered by federal funds, is unemployment for the staff, who were placed on lay-off status.

The District did not apply for renewal of its Workforce Investment Act (WIA) grant through the Workforce Development Board operated by the Calhoun Intermediate School District for the 2006-07 year. Although the District had been a grant recipient for many years, a change in the grant focus and regulations, would have made it difficult for the District to continue to receive the grant. However, the District will be able to maintain some of the program activities through the new grantee.

In response to one of the conclusions reached through the District's Organizational Study conducted last year, the District will offer expanded general education services to its constituent local school districts by entering into a contract with Calhoun Intermediate School District, which will provide instructional consultant services to schools within District. This new contract, that added \$103,948 to the budget, has been determined to be an efficient means of providing the services requested by the constituent local school districts.

Because the district was required to bear some huge increases in the cost of health insurance provided to its staff, such as the July 1, 2003 increase of nearly 40% in the cost of family health insurance, the district changed to a partially self-funded method of financing health insurance effective July 1, 2004. Also, effective on July 1, 2004, the board pays for single membership health insurance for new non-certified employees, requiring them to pay the additional cost of coverage for spouse and/or family if needed. The health insurance deductible was increased on January 1, 2005, and a second increase took place on January 1, 2006. With two years of experience under the partially self-funded health plan so far, the new method of funding health insurance has, as anticipated, slowed the rate of escalation in the cost of health insurance. In 2005-06 the health insurance costs were nearly unchanged compared to the cost of the prior year.

BRANCH INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

The 2006-07 budget was created with the expectation that while health insurance costs will continue to increase, the partial self-funding and deductible and co-pay changes will keep the costs from escalating at high rate. The health insurance budgets were increased by 10% for 2006-07, which is less than medical trend. However, the administration does recognize that there is more risk, and therefore potentially less stability, involved in partial self-funding of health insurance, and two years of favorable results in no way guarantees the continuation of costs increasing only at a modest rate.

Also, effective on October 1, 2006 the rate that all public school districts in Michigan must pay as a percentage of gross employee wages into the Michigan Public School Employees Retirement Fund will increase from the present 16.34% to 17.74%, which represents a jump of over 8.5% after nearly a 10% increase in retirement costs in the prior fiscal year. Projections of the retirement rate for future years anticipate continued large additional increases in the rate. There are current legislative proposals that would hold down the costs of retirement over an extended period of time, but the chances for enactment of these changes to the retirement system are not known. A state-wide ballot proposal going before the electorate on November 7, 2006, if passed, will place a limit on the district's obligation to the retirement system.

With the rising cost of both health insurance and mandated retirement contributions, the cost of fringe benefits continues to put stress on the district's finances. The District has moved over a period of several years to contract for certain non-instructional services, as permitted by law, in order to reduce overall costs, in particular costs of fringe benefits. The movement to contracted services has not lessened the District's commitment to maintaining service levels. As current non-instructional staff leave District employment, through retirement or for other reasons, the District will evaluate the alternative of providing the service through contractors rather than employees, considering both cost and type of service in making a determination of how best to provide the service.

The rapidly increasing cost of energy will continue to impact costs in several areas in the new fiscal year. The cost of operating the Head Start bus fleet will definitely increase due to the higher cost of fuel. Also, the cost of heating the District's buildings, which are mostly heated with natural gas, is likely to increase. The District is experiencing increasing costs in other areas, related to the higher cost of energy.

Contacting the District's Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, and students with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Michael V. Beckwith, Superintendent, or Gary C. Crandall, Business Manager, at Branch Intermediate School District, 370 Morse Street, Coldwater, Michigan 49036, telephone (517) 279-5730.

BRANCH INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities
ASSETS	
Cash and cash equivalent investments	\$ 7,241,585
Receivables	
Taxes	18,595
Accounts receivable	2,426
Due from other governmental units	1,255,852
Inventory	332,054
Prepaid expenses	336,048
Capital assets less accumulated depreciation of \$6,209,191	<u>5,040,317</u>
 Total assets	 14,226,877
LIABILITIES	
Accounts payable	166,554
Salaries payable	942,978
Accrued expenditures	336,085
Deferred revenue	301,915
Long term liabilities	
Bonds payable, due within one year	40,335
Bonds payable, due in more than one year	285,758
Compensated absences	<u>249,893</u>
 Total liabilities	 2,323,518
NET ASSETS	
Investment in capital assets - net of related debt	4,714,224
Designated	314,291
Unrestricted	<u>6,874,844</u>
 Total net assets	 <u><u>\$ 11,903,359</u></u>

See Notes to Financial Statements

BRANCH INTERMEDIATE SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating / Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 9,214,119	\$ 298,454	\$ 1,724,398	\$ (7,191,267)
Support services	6,479,365	734,892	972,680	(4,771,793)
Community services	1,591,851	22,323	1,571,913	2,385
Other school districts	68,614	-	-	(68,614)
Interest on Durant	81,452	-	263,656	182,204
Depreciation unallocated	168,372	-	-	(168,372)
Total governmental activities	<u>\$ 17,603,773</u>	<u>\$ 1,055,669</u>	<u>\$ 4,532,647</u>	(12,015,457)
General revenues:				
Property taxes, levied for general purposes				8,485,781
State aid not restricted for specific purposes				4,232,353
Interest and investment earnings				220,789
Other				<u>4,150</u>
Total general revenues				<u>12,943,073</u>
Change in Net Assets				927,616
Net Assets - Beginning				<u>10,975,743</u>
Net Assets - Ending				<u>\$ 11,903,359</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT**GOVERNMENTAL FUNDS****BALANCE SHEET****JUNE 30, 2006**

	General Fund	Vocational Education Fund	Special Education Fund	Vocational Education Capital Projects Fund
ASSETS				
Cash and cash equivalent investments	\$ 968,534	\$ 2,891,694	\$ 3,047,541	\$ 333,583
Taxes receivable	523	9,481	8,591	-
Accounts receivable	1,720	405	301	-
Due from other governmental units	217,264	183,867	854,625	-
Due from other funds	2,912	1,778	199	67
Inventory	-	332,054	-	-
Prepaid expenses	35,389	233,126	67,533	-
Total assets	<u>\$ 1,226,342</u>	<u>\$ 3,652,405</u>	<u>\$ 3,978,790</u>	<u>\$ 333,650</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 83,239	\$ 54,627	\$ 9,123	\$ 19,359
Salaries payable	16,878	246,649	679,352	-
Accrued expenditures	15,539	82,493	238,029	-
Deferred revenue	295,458	6,457	-	-
Due to other funds	900	23	4,033	-
Total liabilities	412,014	390,249	930,537	19,359
FUND BALANCE				
Designated	-	-	-	314,291
Undesignated	814,328	3,262,156	3,048,253	-
Total fund balance	<u>814,328</u>	<u>3,262,156</u>	<u>3,048,253</u>	<u>314,291</u>
Total liabilities and fund balance	<u>\$ 1,226,342</u>	<u>\$ 3,652,405</u>	<u>\$ 3,978,790</u>	<u>\$ 333,650</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds		Totals
\$	233	\$ 7,241,585
	-	18,595
	-	2,426
	96	1,255,852
	-	4,956
	-	332,054
	-	336,048
<hr/>		<hr/>
\$	329	\$ 9,191,516
<hr/>		<hr/>

\$	206	\$ 166,554
	99	942,978
	24	336,085
	-	301,915
	-	4,956
<hr/>		<hr/>
	329	1,752,488
	-	314,291
	-	7,124,737
<hr/>		<hr/>
	-	7,439,028
<hr/>		<hr/>
\$	329	\$ 9,191,516
<hr/>		<hr/>

BRANCH INTERMEDIATE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO NET ASSETS
JUNE 30, 2006

Total Fund Balance - Governmental Funds	\$ 7,439,028
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds:	
The cost of the capital assets	11,249,508
Accumulated depreciation	<u>(6,209,191)</u>
Total capital assets not reported in the funds	5,040,317
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(326,093)
Compensated absences	<u>(249,893)</u>
Total long-term liabilities not reported in the funds	<u>(575,986)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 11,903,359</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Vocational Education Fund	Special Education Fund	Vocational Education Capital Project Fund
REVENUES				
Local sources	\$ 270,605	\$ 4,485,600	\$ 4,516,303	\$ 7,147
State sources	789,456	759,282	3,276,761	-
Federal sources	1,940,167	212,582	1,647,393	-
Other school districts	120,270	204,192	25,173	-
Total revenues	3,120,498	5,661,656	9,465,630	7,147
EXPENDITURES				
Instruction	411,191	2,642,483	6,008,726	-
Support services	1,078,729	2,228,926	3,003,954	-
Community services	1,584,123	-	6,278	-
Capital outlay	27,281	218,523	85,667	140,441
Debt service	-	-	-	-
Other school districts	-	-	68,614	-
Total expenditures	3,101,324	5,089,932	9,173,239	140,441
Excess (deficiency) of revenues over expenditures	19,174	571,724	292,391	(133,294)
OTHER SOURCES (USES)				
Transfers from (to) other funds	75,597	(356,165)	(12,201)	289,000
Sale of fixed assets	500	3,015	2,405	-
Total other sources (uses)	76,097	(353,150)	(9,796)	289,000
Excess of revenues and other sources over expenditures and other uses	95,271	218,574	282,595	155,706
FUND BALANCE - BEGINNING	719,057	3,043,582	2,765,658	158,585
FUND BALANCE - ENDING	<u>\$ 814,328</u>	<u>\$ 3,262,156</u>	<u>\$ 3,048,253</u>	<u>\$ 314,291</u>

See Notes to Financial Statements

Other Nonmajor Governmental Funds	Totals
\$ 2,843	\$ 9,282,498
263,883	5,089,382
12,377	3,812,519
-	349,635
279,103	18,534,034
-	9,062,400
19,216	6,330,825
-	1,590,401
-	471,912
263,656	263,656
-	68,614
282,872	17,787,808
(3,769)	746,226
3,769	-
-	5,920
3,769	5,920
-	752,146
-	6,686,882
\$ -	\$ 7,439,028

BRANCH INTERMEDIATE SCHOOL DISTRICT
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Net change in Fund Balance - Total Governmental Funds	\$ 752,146
Amounts reported for governmental activities in the statement of activities are different because:	
Depreciation expense	(459,625)
Capital outlay	471,912
Gain on disposal of assets	<u>(8,566)</u>
Total	3,721
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	182,204
Increases in compensated absences are reported as expenditures when financial resources are used in governmental funds in accordance with GASB Interpretation No. 6	<u>(10,455)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 927,616</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

	<u>Student Activities Agency Fund</u>
ASSETS	
Cash and cash equivalent investments	<u>\$ 40,302</u>
LIABILITIES	
Due to student groups	<u>\$ 40,302</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Branch Intermediate School District conform to generally accepted accounting principles in the United States of America as applicable to school districts. The following is a summary of significant policies:

REPORTING ENTITY:

The Board of Education, a five member group, has responsibility for activities relating to vocational and special education within their jurisdiction including, Bronson, Coldwater and Quincy school districts. The Board receives funding from local, state and federal sources and must comply with the requirements of these funding sources. The Board is not a component unit of any other government reporting entity. The Board is elected by the local school districts of Bronson, Coldwater and Quincy and has decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

There were no other governmental entities considered for inclusion with the District as a component unit.

DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS:

The district-wide financial statements, the statement of net assets and the statement of activities, report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree of which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION:

District-wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

BASIS OF PRESENTATION:

MAJOR GOVERNMENTAL FUNDS

General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Vocational Education Fund is used to account for financial resources to be used specifically for providing vocational education services to students within the District.

Special Education Fund is used to account for financial resources to be used specifically for providing special education services to students within the District.

Vocational Education Capital Project Fund is used to account for resources specifically designated for the acquisition and constructions of facilities and for major capital repairs and improvements of facilities.

FIDUCIARY FUNDS

Fiduciary Funds is used to account for assets held by the district in a trustee or agency capacity. Agency funds are custodian in nature, assets equal liabilities, and do not involve measurement of results of operations.

Additionally, the District reports the following nonmajor governmental fund types:

Special Revenue Funds are used to account for the proceeds of specific sources that are restricted to expenditures for specified purposes. The District's nonmajor Special Revenue Fund is the Food Service Fund.

Durant Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and other related costs. Payments for the Durant Debt Service Fund are totally funded by the State of Michigan

ASSETS, LIABILITIES, AND NET ASSETS:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with maturity of three months or less when acquired. Investments are stated at fair value.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES, AND NET ASSETS – Continued:

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

A policy of writing off uncollected personal property taxes after one year has been adopted.

Inventory and Prepaid items – Inventory is valued at cost, on a first-in, first-out basis. Inventory of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The district defines capital assets as assets with an initial individual cost of more than \$1,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The District does not have infrastructure-type assets.

Buildings, equipment, computers and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-45 Years
Buses and other vehicles	7 Years
Furniture and other equipment	4-10 Years
Computers	3 Years

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

ASSETS, LIABILITIES, AND NET ASSETS – Continued:

Fund Balance – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

BASIS OF BUDGETING:

The District adopted their annual budgets based on the modified accrual method of accounting. Revenues and expenditures were estimated by the individual line item basis, but adopted and amended by the Board of Education by the functional level for each fund. Once a budget is approved, it can be amended at the functional level. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are reflected in the official minutes of the Board, and are not made after year end as dictated by State law. Revisions to the budgets were made during the year.

ENCUMBRANCE ACCOUNTING:

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances at year end are reappropriated in the next year. No reservation of fund balance equal to outstanding encumbrances at year end is required.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE B – DEPOSITS AND INVESTMENTS

The District uses financial institutions for cash purposes, which is in accordance with statutory authority. The accounts maintained in the financial institutions are checking, savings and certificates of deposit. The interest rates of the checking and savings accounts are at variable daily rates.

For investment purposes, the District uses a pooled investment account. The pooled investment account is not evidenced by securities that exist in physical book entry form. All investments are in accordance with the Michigan School Code.

The District's cash and investments at June 30, 2006 are as follows:

	Governmental Activities	Fiduciary Funds	Total Government
Cash and investments	<u>\$ 7,241,585</u>	<u>\$ 40,302</u>	<u>\$ 7,281,887</u>

The District has the following investments:

Investments	Fair Value	Weighted Average Maturity (Years)	Standard & Poor's Rating
Michigan Liquid Asset Fund (MICMS)	\$ 24,450	0.0027	AAA m
Michigan Liquid Asset Fund (MIMAX)	<u>66,455</u>	<u>0.0027</u>	AAA m
Total Fair Value	<u>\$ 90,905</u>		
Portfolio weighted average maturity		<u>0.0027</u>	

1 day maturity equals 0.0027, one year equals 1.00

Interest rate risk – In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE B – DEPOSITS AND INVESTMENTS – Continued

Credit risk – State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). The District does not allow direct investment in commercial paper or corporate bonds.

Concentration of credit risk – The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk (deposits) – In the case of deposits, this is the risk that in the event of a financial institution failure, the District's deposits may not be recovered. As of June 30, 2006, \$7,156,574 of the District's bank balance of \$7,456,574 was exposed to custodial credit risk because it was uninsured and uncollateralized. Certificates of deposit and money market accounts are included in the above totals.

Foreign currency risk – The District is not authorized to invest in investments which have this type of risk.

NOTE C – TAXES RECEIVABLE

The District's property taxes are levied each December 1, at which time they are recognized as revenue. Taxes are collected by the local governmental units within Branch, St. Joseph and Hillsdale Counties and are either remitted to the County or directly to the District. After February 28 of each year, all uncollected taxes are returned delinquent to the respective county.

The 2005 taxable valuation of the District was \$1,011,094,978.

The 2005 operating tax rates were as follows

General Fund	0.1727
Vocational Education Fund	4.2364
Special Education Fund	<u>3.8475</u>
Total tax rate	<u><u>8.2566</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2006

NOTE C – TAXES RECEIVABLE – Continued

Taxes receivable represent uncollected personal property taxes as follows:

General Fund	\$ 523
Vocational Education Fund	9,481
Special Education Fund	<u>8,591</u>
Total taxes receivable	<u>\$ 18,595</u>

As discussed in note A, the District has adopted the policy of writing off uncollected personal property taxes after one year. No provision for uncollectible personal property taxes has been made in these financial statements.

NOTE D – DUE FROM (TO) OTHER FUNDS

The due from (to) other funds, at June 30, 2006, for the District are as follows:

GENERAL FUND

Due from Special Education Fund	\$ 2,889
Due from Vocational Education Fund	<u>23</u>
Total General Fund	2,912

VOCATIONAL EDUCATION FUND

Due from General Fund	701
Due from Special Education Fund	<u>1,077</u>
Total Vocational Education Fund	1,778

SPECIAL EDUCATION FUND

Due from General Fund	199
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VOCATIONAL EDUCATION CAPITAL PROJECTS FUND

Due from Special Education Fund	<u>67</u>
Total due from other funds	<u>\$ 4,956</u>

All balances resulted from time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2006

NOTE E – TRANSFERS FROM (TO) OTHER FUNDS

The transfers from (to) other funds, at June 30, 2006, for the District are as follows:

GENERAL FUND

Transfer to Special Education Fund	\$ (68,614)
Transfer from Special Education Fund	58,772
Transfer from Vocational Education Fund	<u>85,439</u>
Total General Fund	<u><u>\$ 75,597</u></u>

VOCATIONAL EDUCATION FUND

Transfer to General Fund	\$ (85,439)
Transfer to Vocational Education Capital Projects Fund	(289,000)
Transfer from Special Education Fund	<u>18,274</u>
Total Vocational Education Fund	<u><u>\$ (356,165)</u></u>

SPECIAL EDUCATION FUND

Transfer to General Fund	\$ (58,772)
Transfer to Vocational Education Fund	(18,274)
Transfer to Food Service Fund	(3,769)
Transfer from General Fund	<u>68,614</u>
Total Special Education Fund	<u><u>\$ (12,201)</u></u>

VOCATIONAL EDUCATION CAPITAL PROJECT FUND

Transfer from Vocational Education Fund	<u><u>\$ 289,000</u></u>
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Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2006

NOTE F – CAPITAL ASSETS

Capital asset activity of the District's governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
GROUP:				
Buildings and land	\$ 7,041,248	\$ 156,497	\$ -	\$ 7,197,745
Equipment	1,962,992	112,766	61,635	2,014,123
Computers	1,015,249	107,252	135,914	986,587
Vehicles	1,021,386	95,397	65,730	1,051,053
Subtotal	11,040,875	471,912	263,279	11,249,508
ACCUMULATED DEPRECIATION:				
Buildings	3,005,205	154,616	-	3,159,821
Equipment	1,463,349	129,281	59,642	1,532,988
Computers	880,313	105,193	135,914	849,592
Vehicles	655,412	70,535	59,157	666,790
Total accumulated depreciation	6,004,279	459,625	254,713	6,209,191
Net Capital Assets	<u>\$ 5,036,596</u>	<u>\$ 12,287</u>	<u>\$ 8,566</u>	<u>\$ 5,040,317</u>

Depreciation expense was charged to activities of the District as follows:

GOVERNMENTAL ACTIVITIES:	
Instruction	\$ 136,511
Support services	154,742
Unallocated	<u>168,372</u>
Total governmental activities	<u>\$ 459,625</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2006****NOTE G – DEFERRED REVENUE**

Deferred revenue represents unexpended funds as follows:

	General	Vocational Education	Total
Advanced and accelerated pupils	\$ 11,879	\$ -	\$ 11,879
Michigan school readiness	22,314	-	22,314
Technical training	7,962	-	7,962
Head start	19,176	-	19,176
Great parents / Great start	33,708	-	33,708
Durant	173,917	-	173,917
Circle of care	859	-	859
Agri-environmental wilderness expedition	-	5,957	5,957
Miscellaneous	25,643	500	26,143
Total	<u>\$ 295,458</u>	<u>\$ 6,457</u>	<u>\$ 301,915</u>

NOTE H – LONG-TERM DEBT

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
Governmental Activities:				
Bonds	\$ 508,297	\$ -	\$ 182,204	\$ 326,093
Compensated Absences	239,438	10,455	-	249,893
Total governmental activities	<u>\$ 747,735</u>	<u>\$ 10,455</u>	<u>\$ 182,204</u>	<u>\$ 575,986</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2006

NOTE H – LONG-TERM DEBT – Continued

General obligation bonds consist of the following:

1998 school improvement bond payment due in annual installments of \$40,335 to \$53,329 through May 15, 2013; interest at 4.76% \$ 326,093

Annual debt service requirements to maturity for the above governmental bond obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 40,335	\$ 15,526	\$ 55,861
2008	42,266	13,606	55,872
2009	44,279	11,594	55,873
2010	46,385	9,485	55,870
2011	48,595	7,277	55,872
2012-2013	<u>104,233</u>	<u>7,502</u>	<u>111,735</u>
Total	<u>\$ 326,093</u>	<u>\$ 64,990</u>	<u>\$ 391,083</u>

NOTE I – SELF FUNDED INSURANCE POOL

The District participates in a entity risk pool for health insurance. The pool is through Blue Cross-Blue Shield of Michigan. This pool provides for insurance coverage based on the group of employees enrolled at the Branch Intermediate School District. Should the pool experience significant losses in the aggregate, the District may be required to pay additional monies to the pool. The premiums are evaluated every three months and new premium amounts set on historical data of claims filed. At present Blue Cross – Blue Shield of Michigan has not required large additional funds. Premiums for the year ended June 30, 2006 were \$1,635,367 and the District is not aware of any significant amounts of claims payable at year end.

BRANCH INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS – Continued FOR THE YEAR ENDED JUNE 30, 2006

NOTE J – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; errors and omissions; injuries to employee's and natural disasters. The District participates in two distinct pools of education institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subjected to special assessment to make up the deficiency. Each of the pools maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required. The District continues to carry commercial insurance for other risk.

NOTE K – RETIREMENT PROGRAM

Plan Description – The District contributes to the statewide Michigan Public School Employee's Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine-member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909 or by calling (800) 381-5111. The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2006

NOTE K – RETIREMENT PROGRAM - Continued

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2006 were 14.87% of payroll for the first quarter and 16.34% through the remainder of the fiscal year. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2006, 2005 and 2004 were \$1,549,670, \$1,392,937, and \$1,221,115, respectively, equal to the required contribution for the year.

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other Post employment Benefits – Under MPSERS' Act all retirees have the option of continuing health, dental and vision coverage. These benefits are not included in the pension benefit obligation referred above.

NOTE L – ADMINISTRATIVE FRINGE BENEFITS

The District allows administrative employees the option to receive tax sheltered annuity or a split-dollar life insurance policy.

TAX SHELTERED ANNUITY:

The district has a tax sheltered annuity program qualified under Section 403(b) of the Internal Revenue Code. The District makes employer contributions for eligible administrative employees.

SPLIT-DOLLAR LIFE INSURANCE:

Under the split-dollar life insurance program, the District pays the premiums and receives upon termination of the policy or the death of the insured, the total premiums paid on the policy and the insured designates a beneficiary to receive the balance of the benefits paid.

BRANCH INTERMEDIATE SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS – Continued
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE M – DONATED SERVICES AND MATERIALS

The District participates in numerous Federal and state grant programs, which are governed by various rules and regulations of the grantor agencies. Various programs require the District to provide a local match through in-kind donated services or materials. These donated services and materials lack objective measurable basis for determining fair value, and accordingly, are not reflected as revenues and expenditures in these financial statements.

BRANCH INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		Actual
	Original	Final	
REVENUES			
Local sources	\$ 253,072	\$ 279,111	\$ 270,605
State sources	896,893	920,926	789,456
Federal sources	1,957,853	1,952,286	1,940,167
Other school districts	126,928	122,928	120,270
 Total revenues	 3,234,746	 3,275,251	 3,120,498
EXPENDITURES			
Instruction	372,288	428,034	411,191
Support services	1,261,266	1,228,187	1,078,729
Community services	1,601,326	1,593,119	1,584,123
Capital outlay	26,200	27,598	27,281
Other school districts	42,906	-	-
 Total expenditures	 3,303,986	 3,276,938	 3,101,324
 Excess (deficiency) of revenues over expenditures	 (69,240)	 (1,687)	 19,174
OTHER SOURCES			
Transfers from other funds	83,816	74,814	75,597
Sale of fixed assets	1,100	500	500
 Total other sources	 84,916	 75,314	 76,097
 Excess of revenues and other sources over expenditures	 15,676	 73,627	 95,271
FUND BALANCE - BEGINNING	660,638	719,057	719,057
FUND BALANCE - ENDING	\$ 676,314	\$ 792,684	\$ 814,328

BRANCH INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
VOCATIONAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		
	Original	Final	Actual
REVENUES			
Local sources	\$ 4,413,026	\$ 4,472,521	\$ 4,485,600
State sources	694,351	759,283	759,282
Federal sources	210,008	230,590	212,582
Other school districts	187,271	205,892	204,192
 Total revenues	 5,504,656	 5,668,286	 5,661,656
EXPENDITURES			
Instruction	2,759,729	2,667,314	2,642,483
Support services	2,367,143	2,324,814	2,228,926
Capital outlay	280,497	228,346	218,523
 Total expenditures	 5,407,369	 5,220,474	 5,089,932
 Excess of revenues over expenditures	 97,287	 447,812	 571,724
OTHER SOURCES (USES)			
Transfers from (to) other funds	(104,300)	(356,165)	(356,165)
Sale of fixed assets	500	3,015	3,015
 Total other sources (uses)	 (103,800)	 (353,150)	 (353,150)
 Excess (deficiency) of revenues and other sources over expenditures and other uses	 (6,513)	 94,662	 218,574
 FUND BALANCE - BEGINNING	 2,911,818	 3,043,582	 3,043,582
 FUND BALANCE - ENDING	 \$ 2,905,305	 \$ 3,138,244	 \$ 3,262,156

BRANCH INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts		
	Original	Final	Actual
REVENUES			
Local sources	\$ 4,468,968	\$ 4,535,309	\$ 4,516,303
State sources	3,213,832	3,249,449	3,276,761
Federal sources	1,809,305	1,764,219	1,647,393
Other school districts	26,440	25,173	25,173
Total revenues	9,518,545	9,574,150	9,465,630
EXPENDITURES			
Instruction	6,300,479	6,169,048	6,008,726
Support services	3,101,294	3,112,508	3,003,954
Community services	4,568	13,785	6,278
Capital outlay	115,898	89,864	85,667
Other school districts	65,000	69,397	68,614
Total expenditures	9,587,239	9,454,602	9,173,239
Excess (deficiency) of revenues over expenditures	(68,694)	119,548	292,391
OTHER SOURCES (USES)			
Transfers from (to) other funds	(21,492)	(13,895)	(12,201)
Sale of fixed assets	100	2,405	2,405
Total other sources (uses)	(21,392)	(11,490)	(9,796)
Excess (deficiency) of revenues and other sources over expenditures and other uses	(90,086)	108,058	282,595
FUND BALANCE - BEGINNING	2,592,127	2,765,658	2,765,658
FUND BALANCE - ENDING	<u>\$ 2,502,041</u>	<u>\$ 2,873,716</u>	<u>\$ 3,048,253</u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
VOCATIONAL EDUCATION CAPITAL PROJECT FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
Local sources	\$ 3,000	\$ 7,200	\$ 7,147
EXPENDITURES			
Capital outlay	<u>35,000</u>	<u>200,000</u>	<u>140,441</u>
Excess (deficiency) of revenues over expenditures	(32,000)	(192,800)	(133,294)
OTHER SOURCES			
Transfers from other funds	<u>35,000</u>	<u>289,000</u>	<u>289,000</u>
Excess of revenues and other sources over expenditures	3,000	96,200	155,706
FUND BALANCE - BEGINNING	<u>85,585</u>	<u>158,585</u>	<u>158,585</u>
FUND BALANCE - ENDING	<u><u>\$ 88,585</u></u>	<u><u>\$ 254,785</u></u>	<u><u>\$ 314,291</u></u>

BRANCH INTERMEDIATE SCHOOL DISTRICT
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Food Service Fund	Durant Debt Service Fund	Totals
ASSETS			
Cash and cash equivalent investments	\$ 233	\$ -	\$ 233
Due from other governmental units	96	-	96
	<hr/>	<hr/>	<hr/>
Total assets	\$ 329	\$ -	\$ 329
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 206	\$ -	\$ 206
Salaries payable	99	-	99
Accrued expenditures	24	-	24
	<hr/>	<hr/>	<hr/>
Total liabilities	329	-	329
FUND BALANCE			
Designated	-	-	-
Undesignated	-	-	-
	<hr/>	<hr/>	<hr/>
Total fund balance	-	-	-
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balance	\$ 329	\$ -	\$ 329
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

BRANCH INTERMEDIATE SCHOOL DISTRICT
OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	Food Service Fund	Durant Debt Service Fund	Totals
REVENUES			
Local sources	\$ 2,843	\$ -	\$ 2,843
State sources	227	263,656	263,883
Federal sources	12,377	-	12,377
	<hr/>	<hr/>	<hr/>
Total revenues	15,447	263,656	279,103
EXPENDITURES			
Support services	19,216	-	19,216
Debt service			
Principal	-	182,204	182,204
Interest	-	81,452	81,452
	<hr/>	<hr/>	<hr/>
Total debt service	-	263,656	263,656
	<hr/>	<hr/>	<hr/>
Total expenditures	19,216	263,656	282,872
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over expenditures	(3,769)	-	(3,769)
OTHER SOURCES			
Transfers from other funds	3,769	-	3,769
	<hr/>	<hr/>	<hr/>
Excess of revenues and other sources over expenditures	-	-	-
FUND BALANCE - BEGINNING	<hr/>	<hr/>	<hr/>
FUND BALANCE - ENDING	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

BRANCH INTERMEDIATE SCHOOL DISTRICT

**INTERNAL CONTROL AND
FEDERAL GRANT REPORTS**

JUNE 30, 2006

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Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

**Board of Education
Branch Intermediate School District
Branch County, Michigan**

August 11, 2006

We have audited the financial statements, the governmental activities, each major fund and the aggregate remaining fund information of Branch Intermediate School District as of and for the year ended June 30, 2006, and have issued our report thereon dated August 11, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by Comptroller General of the United States.

Internal Control Over Financial Reporting: In planning and performing our audit, we considered Branch Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters: As part of obtaining reasonable assurance about whether Branch Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Governmental Auditing Standards.

**Board of Education
Branch Intermediate School District**

August 11, 2006

This report is intended solely for the information and use of the management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Rumsey & Watkins P.C.".

RUMSEY & WATKINS, P.C.

Rumsey & Watkins, P.C.

Certified Public Accountants and Business Advisors

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

**Board of Education
Branch Intermediate School District
Branch County, Michigan**

August 11, 2006

Compliance: We have audited the compliance of Branch Intermediate School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Branch Intermediate School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Branch Intermediate School District management. Our responsibility is to express an opinion on Branch Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Branch Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination on Branch Intermediate School District's compliance with those requirements.

In our opinion, Branch Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance: The management of Branch Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Branch Intermediate School District's internal control over compliance with requirements that could have a direct material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

Schedule of expenditures of Federal awards: We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Branch Intermediate School District as of and for the year ended June 30, 2006, and have issued our report thereon dated August 11, 2006. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Rumsey J. Watkins PC".

RUMSEY & WATKINS, P.C.

BRANCH INTERMEDIATE SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2006**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
Title V	84.298	060250 0506	\$ 859
* P.L. 94-142	84.027	040450 0304	1,132,970
* P.L. 94-142	84.027	050490 CB	13,860
* P.L. 94-142	84.027	050490 TS	60,000
* P.L. 94-142	84.027	050450 0405	1,310,157
* P.L. 94-142	84.027	060450 0506	1,352,079
* P.L. 94-142	84.027	060480 EOSD	50,000
* P.L. 94-142	84.027	060490 TS	60,000
Total P.L. 94-142			<u>3,979,066</u>
* P.L. 94-142	84.173	040460 0304	44,119
* P.L. 94-142	84.173	050460 0405	44,347
* P.L. 94-142	84.173	060460 0506	43,469
Total P.L. 94-142			<u>131,935</u>
Homeless Children and Youths	84.196	052320 0405	27,507
Homeless Children and Youths	84.196	062320 0506	<u>20,750</u>
Total Homeless Children and Youths			48,257

* Designates major program

<u>Accrued or (Deferred) Revenue at July 1, 2005</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2006</u>	<u>Prior Years Expenditures</u>
\$ -	\$ 859	\$ 859	\$ -	\$ -
21,518	21,518	-	-	1,132,970
3,920	3,920	-	-	13,860
2,777	2,777	-	-	60,000
93,329	184,750	126,412	34,991	1,183,745
-	1,053,383	1,191,308	137,925	-
-	47,272	50,000	2,728	-
-	37,102	50,074	12,972	-
<u>121,544</u>	<u>1,350,722</u>	<u>1,417,794</u>	<u>188,616</u>	
1,229	1,229	-	-	44,119
79	7,796	7,717	-	36,630
-	35,777	37,611	1,834	-
<u>1,308</u>	<u>44,802</u>	<u>45,328</u>	<u>1,834</u>	
7,402	8,862	1,460	-	26,047
<u>-</u>	<u>11,995</u>	<u>15,752</u>	<u>3,757</u>	-
7,402	20,857	17,212	3,757	

BRANCH INTERMEDITE SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2006**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF EDUCATION - Continued			
Passed Through State Department of Education - Continued			
Handicapped Infants and Toddlers	84.181	051340 190	107,296
Handicapped Infants and Toddlers	84.181	061340 190	106,184
Total Handicapped Infants and Toddlers			213,480
Even Start	84.213	050390 C0541CES	223,209
Even Start	84.213	060390 D0618CES	225,000
Total Even Start			448,209
Title II Part A	84.367	060520 0506	1,083
Total Passed Through State Department of Education			4,822,889
Passed Through Calhoun Intermediate School District:			
Carl Perkins Act	84.048	-	107,466
Technical Preparation Consortium	84.243	-	2,000
Total Passed Through Calhoun Intermediate School District			109,466
Total Department of Education			4,932,355

* Designates major program

<u>Accrued or (Deferred) Revenue at July 1, 2005</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2006</u>	<u>Prior Years Expenditures</u>
5,901	46,155	40,254	-	67,042
-	69,812	78,839	9,027	-
5,901	115,967	119,093	9,027	
35,121	35,121	-	-	223,209
-	175,102	219,044	43,942	-
35,121	210,223	219,044	43,942	
-	1,083	1,083	-	-
171,276	1,744,513	1,820,413	247,176	
-	107,466	107,466	-	-
-	2,000	2,000	-	-
-	109,466	109,466	-	
171,276	1,853,979	1,929,879	247,176	

BRANCH INTERMEDIATE SCHOOL DISTRICT**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2006**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
National School Lunch Program 2004-2005	10.555	-	11,237
National School Lunch Program 2005-2006	10.555	-	12,377
Total National School Lunch Program			23,614
Child Care Food Program 2004-2005	10.588	-	122,448
Child Care Food Program 2005-2006	10.588	-	130,805
Total Child Care Food Program			253,253
Total Department of Agriculture			276,867
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs:			
* Head Start	93.600	05CH420939	1,548,426
* Head Start	93.600	05CH420940	1,557,610
Total Head Start			3,106,036
Passed Through Department of Human Services			
Strong Families/Safe Children	93.556	-	344
Strong Families/Safe Children	93.556	-	13,000
Strong Families/Safe Children	93.556	-	16,136
Strong Families/Safe Children	93.556	-	17,000
Total passed through Family Independence Agency			46,480

* Designates major program

<u>Accrued or (Deferred) Revenue at July 1, 2005</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2006</u>	<u>Prior Years Expenditures</u>
1,557	1,557	-	-	11,237
-	12,281	12,377	96	-
<u>1,557</u>	<u>13,838</u>	<u>12,377</u>	<u>96</u>	
12,228	12,221	(7)	-	122,448
-	130,805	130,805	-	-
<u>12,228</u>	<u>143,026</u>	<u>130,798</u>	<u>-</u>	
13,785	156,864	143,175	96	
113,396	113,396	-	-	1,548,426
-	1,485,009	1,557,610	72,601	-
<u>113,396</u>	<u>1,598,405</u>	<u>1,557,610</u>	<u>72,601</u>	
88	344	256	-	88
1,075	4,300	3,225	-	9,775
-	4,431	5,712	1,281	-
-	-	5,330	5,330	-
<u>-</u>	<u>-</u>	<u>5,330</u>	<u>5,330</u>	
1,163	9,075	14,523	6,611	

BRANCH INTERMEDIATE SCHOOL DISTRICT**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2006**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF HEALTH AND HUMAN SERVICES - Continued			
Passed Through Calhoun Intermediate School District:			
Drug Free Schools	84.186	-	870
Passed Through State Department of Community Health:			
Early Childhood Investment Corporation	93.575	-	55,000
Medical Assistance Program	93.778	-	13,321
Medical Assistance Program	93.778	-	25,171
Total Medical Assistance Program			<u>38,492</u>
Total passed through State Department of Community Health			<u>93,492</u>
Total Department of Health and Human Services			3,246,878
DEPARTMENT OF DOMESTIC PREPAREDNESS			
Passed Through State Department of Police:			
State Homeland Security Grant	97.004	-	3,814

<u>Accrued or (Deferred) Revenue at July 1, 2005</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2006</u>	<u>Prior Years Expenditures</u>
-	870	870	-	-
-	8,333	4,129	(4,204)	-
-	13,321	13,321	-	-
-	25,171	25,171	-	-
<u>-</u>	<u>38,492</u>	<u>38,492</u>	<u>-</u>	
<u>-</u>	<u>46,825</u>	<u>42,621</u>	<u>(4,204)</u>	
114,559	1,655,175	1,615,624	75,008	
-	3,814	3,814	-	-

BRANCH INTERMEDIATE SCHOOL DISTRICT**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2006**

Program Title	Federal CFDA Number	Pass Through Grantor's Number	Program or Award Amount
DEPARTMENT OF LABOR			
Passed Through Calhoun Intermediate School District:			
Workforce Investment Act	17.255	-	103,533
Workforce Investment Act	17.255	-	117,122
Total passed through Calhoun Intermediate School District			220,655
Passed Through Michigan Rehabilitation Services:			
Rehabilitation Services	84.128	-	20,277
Rehabilitation Services	84.128	-	37,718
Total passed through Michigan Rehabilitation Services:			57,995
Total Department of Labor			278,650
OTHER FEDERAL ASSISTANCE			
Bronson/Coldwater Housing Commission	14.239	-	10,476
Total Federal Financial Assistance			\$ 8,749,040

<u>Accrued or (Deferred) Revenue at July 1, 2005</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Accrued or (Deferred) Revenue at June 30, 2006</u>	<u>Prior Years Expenditures</u>
42,100	42,100	-	-	103,533
-	78,806	99,302	20,496	-
42,100	120,906	99,302	20,496	
-	14,500	14,500	-	-
-	6,218	6,218	-	-
-	20,718	20,718	-	
42,100	141,624	120,020	20,496	
-	10,476	10,476	-	-
<u>\$ 341,720</u>	<u>\$ 3,821,932</u>	<u>\$ 3,822,988</u>	<u>\$ 342,776</u>	

BRANCH INTERMEDIATE SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2006**

**Reconciliation of Total Federal Assistance
to Financial Statements:**

Total Federal Assistance received	\$ 3,821,932
Accrued revenue at July 1, 2005	(341,720)
Accrued revenue at June 30, 2006	<u>342,776</u>
Total Federal Assistance expenditures	3,822,988
 Prior years accrued revenue written off during current year	 7
 Payment in lieu of taxes shown in general purpose financial statements as local source	 <u>(10,476)</u>
 Total Federal Sources per general purpose financial statements	 <u><u>\$ 3,812,519</u></u>

ADDITIONAL COMMENTS

For the grants tested in accordance with the Single Audit Act, the expenditures identified in the schedule of expenditures of Federal awards are supported by source documentation, accurate, current, proper and in agreement with financial reports submitted to the Michigan Department of Education.

Per review of the June 30, 2005 schedule of findings and questioned costs, no items were noted in the prior years.

BRANCH INTERMEDIATE SCHOOL DISTRICT
NOTES TO INTERNAL CONTROL AND FEDERAL GRANT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Branch Intermediate School District conform to generally accepted accounting principles in the United States of America as applicable to school districts. Please refer to Note A of the financial statements for a summary of significant policies.

NOTE B – GRANT SECTION AUDITORS REPORT

Management has utilized the Grant Section Auditors Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

BRANCH INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Branch Intermediate School District.
2. No reportable conditions relating to the audit of financial statements are reported in the Report on compliance and on internal control over financial reporting based on an audit of the financial statements performed in accordance with Governmental Auditing Standards.
3. No instances of noncompliance material to the financial statements of Branch Intermediate School District were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.
5. The auditors report on compliance for major federal award programs for Branch Intermediate School District expresses an unqualified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for Branch Intermediate School District are reported in this schedule.
7. The programs tested as a major program include: Head Start CFDA number 93.600 and P.L. 94-142 CFDA number 84.027 and 84.173.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Branch Intermediate School District was determined to be a low risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None